

USSR/ESPIONAGE RATHER: The only consulate that the Soviet Union has in the United States is in San Francisco, the city by the bay that is also the city by the valley, Silicon Valley, one of this country's major centers for sensitive, high tech research. Computers, of course, are used in that research. And much of the information exchanged among the computers is by telephone. According to many, it is no coincidence that the Soviets have chosen to locate their consulate high above this valley. Barry Peterson reports.

PETERSON: It is perched in one of the most prestigious neighborhoods of San Francisco. Still, it is not the address that angers critics, but the perch itself. On top of the consulate are a variety of antennas. The Soviets say they're only for communication with other Soviet installations or with Moscow. But hidden inside these rooftop structures, say intelligence experts, are other, more sophisticated antennae. JOHN SHEA (Intelligence Expert): The other antennas that are on the roof are used, coupled with a computer scanning system that can be acquired legally in this country or through Canada to monitor selected telephone exchanges within the Silicon Valley, San Francisco, San Jose area. GENNADY GERMAN (Soviet Vice Consul): These allegations, as I see them, are a product of misunderstanding, hatred and mistrust of the Soviet Union.

PETERSON: Many calls, especially long distance, are relayed via microwave. And a tap into the calls requires one important element, height. The eavesdropping equipment must be high enough. Not only is the consulate high enough, but experts claim the top floors are given over to elaborate electronic equipment, and dozens of highly trained specialists. GERMAN: This is simply not true. And I can tell you for sure that we don't have a specialist in this, in our consulate who can really tell an Apple, you know, from an atom bomb.

PETERSON: The Soviet ability to monitor calls could be reduced somewhat by simply moving the consulate, putting in in a location, for instance, surrounded by hills. But the Soviets are here. Not surprisingly, they like what they have. They're likely to stay. But the Soviets are on the move in Washington, D.C., moving from downtown to a new embassy building on a commanding hill. One that critics say enhances the Soviets' ability to intercept communications from the CIA, the Pentagon and other government buildings. The new American Embassy being built in Moscow, however, is in a low lying area sometimes called the swamp, less able to do to the Soviets what some believe the Soviets are doing to us. Walter Huddleston is a long-time member of the Senate Intelligence Committee. HUDDLESTON: Well, the Soviets obviously won that one, and they're winning constantly.

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PETERSON: In San Francisco, Soviet diplomats can enjoy a panoramic view of the bay from their consulate. But more worrisome is the consulate's proximity to the high pressure, high-tech Silicon Valley, where so much advanced defense work takes place. Are we're being naive to let this building stay here with the equipment you believe is inside of it? SHEA: Yes, we are.

PETERSON: Why? SHEA: Because we're basically handing to the Soviets, technology on a silver platter.

PETERSON: No one can prove the Soviets are eavesdropping. But most experts agree the Soviets are hungry for American technology and smart enough to steal it from thin air. Barry Peterson, CBS News, San Francisco.